Flash Report

The Employees' Retirement System of the County of Milwaukee

MERCER

Investment Consulting

Trustees' Summary

The Total Fund had an aggregate market value of approximately \$1.6 billion at the end of April. The Total Fund gained 1.1% during the month, trailing the Reference Index by 10 basis points.

The large cap domestic equity market, as measured by the Russell 1000 Index, advanced 1.2% during April while the small cap equity market was flat, as measured by the Russell 2000 Index. Value outperformed growth in both the large cap and small cap arenas.

The international equity markets posted gains during April as the EAFE Index of developed markets returned 4.8% in US dollar terms and emerging market equities, as measured by the MSCI Emerging Markets Index, gained 7.1%.

The investment-grade fixed income market, as measured by the Lehman Aggregate Index, declined 0.2% during the month. High yield issues outperformed the broad market during the month, gaining 0.6% as measured by the Merrill Lynch Yield Index.

Recommendations and Comments

- The Fund is currently overweight mid cap equity and high yield fixed income and underweight core fixed income relative to the new investment policy.
- In order to rebalance the midcap equity allocation, Mercer IC recommends that we liquidate \$6 million from Hotchkis & Wiley, \$6 million from Artisan and \$3 million from Earnest Partners and transfer the assets into the Mellon Lehman Brothers Aggregate Index Fund.

- Further, Mercer IC recommends that we rebalance \$30 million from the Loomis Sayles High Yield account to the Loomis Sayles Core Fixed Income account. We propose that this transfer be completed over the next several months at Loomis' discretion given market conditions.
- The following managers have presented a due diligence update during 2006: Hotchkis & Wiley (Jan), Reinhart & Mahoney (Feb), EARNEST Partners (Feb), Boston Partners (Feb), Artisan Partners (March) and Ariel (April). The next due diligence meeting is scheduled for July.
- Ariel Capital Management was terminated at the April Board meeting. It was determined that the Fund would proceed with a small cap value search to find a replacement for the \$43 million that Ariel currently manages.
- Artisan has had a change in their ownership structure. The current minority owner Hellman & Friedman will increase its stake in the firm while current partners are allowed to redeem up to 30% of their shares with Artisan borrowing to buy back those shares. The result is that Artisan's founding partners have the opportunity to diversify personal holdings while facilitating increased ownership by new partners over time. Note that the control and management of Artisan will remain the same and Andy Ziegler will continue as the CEO. The firm remains majority-owned by its employees. Mercer IC views this change as a positive.

	Assets (\$ millions)	April	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
Total Fund (1)	1,586.28	1.1	6.3	18.0	16.8	9.4	7.9	9.7	_	
vs. Composite Market Index CPI + 4% (1 Month in Arrears)		1.2 0.9	5.7 2.5	15.9 7.4	15.0 6.7	7.8 6.5	6.2 6.8	8.8 6.5	_ _	
LARGE CAP VALUE EQUITY MANAGER										
Boston Partners	163.48	1.9	7.2	24.0	17.1	8.2	8.8	11.5	12.6	8/1/95
Boston Partners - Net		1.9	7.1	23.8	16.9	8.0	8.5	11.3	12.3	
vs. Russell 1000 Value + 1%		2.6	9.0	19.3	20.4	8.3	6.5	12.2	13.2	
S&P 500 + 1%		1.4	5.9	16.4	15.7	3.7	2.3	9.9	11.0	
CPI + 6.5% (1 Month in Arrears)		1.1	3.8	10.4	9.7	9.5	9.8	9.5	9.1	
LARGE CAP GROWTH EQUITY MANAGER										
Mellon Capital Management - Ru 1000 Growth Index	99.53	-0.1	3.0	15.2	12.1	N/A	N/A	N/A	-0.4	5/31/01
Mellon Capital Management - Ru 1000 Growth Index - Net	00.00	-0.1	3.0	15.2	12.0	N/A	N/A	N/A	-0.4	0.0 0 .
vs. Russell 1000 Growth		-0.1	3.0	15.2	12.1	-0.8	-2.6	6.2	-0.5	
LARGE CAP EQUITY INDEX										
Mellon Capital Management - S&P 500	118.51	1.4	5.6	15.5	14.7	2.7	1.4	9.0	10.9	4/13/95
Mellon Capital Management - S&P 500 - Net		1.4	5.6	15.4	14.7	2.7	1.3	9.0	10.8	
vs. S&P 500		1.3	5.6	15.4	14.7	2.7	1.3	8.9	10.8	
MID CAP VALUE EQUITY MANAGER										
Hotchkis & Wiley	46.10	0.4	8.1	24.6	N/A	N/A	N/A	N/A	16.9	2/18/05
Hotchkis & Wiley - Net		0.3	7.8	23.6	N/A	N/A	N/A	N/A	15.9	
vs. Russell Mid Cap Value + 1%		1.0	11.6	25.7	27.5	14.7	12.7	14.9	18.8	
CPI + 5.7% (1 Month in Arrears)		1.3	4.4	12.4	11.7	11.5	11.8	11.5	9.5	
MID CAP GROWTH EQUITY MANAGER										
Artisan Partners	46.82	0.9	8.6	27.6	21.5	7.2	N/A	N/A	6.0	6/12/00
Artisan Partners - Net	70.02	0.8	8.3	26.5	20.5	6.3	N/A	N/A	5.2	3/12/00
vs. Russell Mid Cap Growth		0.4	8.1	28.3	23.2	5.8	5.2	8.9	-1.6	
CPI + 5.7% (1 Month in Arrears)		1.3	4.4	12.4	11.7	11.5	11.8	11.5	8.3	

⁽¹⁾ Total Fund returns represent actual returns through 12/31/2005 and estimated performance thereafter.

MID CAP CORE EQUITY	Assets (\$ millions)	April	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
EARNEST Partners EARNEST Partners - Net*	42.96	1.2 	9.3 	26.4 	N/A N/A	N/A N/A	N/A N/A	N/A N/A	24.1	2/18/05
vs. Russell Mid Cap Index + 1% CPI + 5.7% (1 Month in Arrears)		0.8 1.3	8.7 4.4	27.4 12.4	26.2 11.7	11.8 11.5	11.0 11.8	13.4 11.5	19.1 9.5	
Reinhart & Mahoney Reinhart & Mahoney - Net	12.37	2.5 2.5	12.9 12.8	30.8 30.2	N/A N/A	N/A N/A	N/A N/A	N/A N/A	19.9 19.4	2/18/05
vs. S&P 400 CPI + 5.7% (1 Month in Arrears)		1.4 1.3	9.1 4.4	28.3 12.4	23.7 11.7	10.7 11.5	11.9 11.8	14.3 11.5	18.6 9.5	
SMALL CAP EQUITY MANAGERS										
Westfield Capital Management Westfield Capital Management - Net	50.34	1.0 N/A	16.1 N/A	35.5 N/A	25.0 N/A	8.7 N/A	N/A N/A	N/A N/A	7.8 N/A	2/6/01
vs. Russell 2000 Growth CPI + 5.9% (1 Month in Arrears)		-0.3 1.3	14.0 4.4	36.1 12.4	24.2 11.7	6.0 11.5	4.1 11.8	4.7 11.5	6.3 8.5	
Ariel Ariel - Net	42.86	-1.6 -1.6	7.5 7.4	12.4 12.0	20.3 19.8	13.6 13.1	13.7 13.2	16.2 15.7	16.4 15.9	11/30/95
vs. Russell 2500 Value Russell 2500 + 2% CPI + 5.9% (1 Month in Arrears)		0.4 0.5 1.3	10.9 12.2 4.4	26.8 32.3 12.4	26.6 27.7 11.7	15.0 13.7 11.5	14.1 13.6 11.8	14.3 13.6 11.5	14.7 14.4 8.5	
INTERNATIONAL EQUITY MANAGERS										
Capital Guardian Capital Guardian - Net	88.70	4.2 4.1	12.3 12.1	38.8 38.2	28.1 27.5	9.1 8.6	8.9 8.4	11.5 11.0	11.1 10.5	9/1/94
vs. EAFE + 1% CPI + 6.7% (1 Month in Arrears)		4.9 1.2	15.1 4.1	35.0 11.4	30.6 10.7	10.6 10.5	7.1 10.8	8.0 10.5	8.2 9.3	
Grantham, Mayo Grantham, Mayo - Net	154.20	5.5 5.4	16.7 16.4	38.5 37.5	35.9 34.9	19.4 18.6	14.4 13.6	12.7 11.9	12.7 11.9	4/13/95
vs. EAFE + 1% CPI + 6.7% (1 Month in Arrears)		4.9 1.2	15.1 4.1	35.0 11.4	30.6 10.7	10.6 10.5	7.1 10.8	8.0 10.5	8.5 9.2	

^{*}Net-of-fee returns for EARNEST Partners were unavailable at the time of production.

INTERNATIONAL SMALL CAP EQUITY MANAGER	Assets (\$ millions)	April	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
Capital Guardian	62.80	5.8	16.6	61.8	47.5	19.6	14.9	N/A	12.7	10/31/97
Capital Guardian - Net		5.8	16.4	61.0	46.7	18.9	14.2	N/A	12.0	
vs. MSCI World Ex U.S. Small Cap + 1%		4.6	15.6	42.0	40.5	18.6	13.0	7.3	11.0	
CPI + 6.9% (1 Month in Arrears)		1.4	4.8	13.4	12.7	12.5	12.8	12.5	9.5	
CORE FIXED INCOME MANAGERS										
JPMorganChase	109.11	-0.2	-0.7	N/A	N/A	N/A	N/A	N/A	1.2	11/1/05
JPMorganChase - Net		-0.2	-0.8	N/A	N/A	N/A	N/A	N/A	1.1	
vs. LB G/C + 0.5%		-0.3	-1.2	0.7	2.9	5.8	6.1	6.9	0.4	
LB Aggregate + 0.5%		-0.1	-0.7	1.2	3.1	5.7	6.1	6.8	8.0	
CPI + 2.6% (1 Month in Arrears)		8.0	2.5	6.4	5.7	5.5	5.8	5.5	1.6	
Mellon Capital Management	207.82	-0.2	-0.8	0.7	2.6	5.2	5.7	6.4	5.9	1/31/96
Mellon Capital Management - Net		-0.2	-0.8	0.7	2.6	5.2	5.6	6.4	5.9	
vs. LB Aggregate		-0.2	-0.8	0.7	2.6	5.2	5.6	6.3	5.9	
Loomis, Sayles	89.40	0.1	-0.2	2.3	6.2	9.2	8.1	8.6	9.9	6/30/91
Loomis, Sayles - Net		0.1	-0.3	2.2	6.0	9.1	7.9	8.5	9.8	
vs. Fixed Income Reference Index + 0.5% (1)		-0.1	-0.7	1.2	3.1	5.7	5.7	7.1	8.0	
LB Aggregate + 0.5%		-0.1	-0.7	1.2	3.1	5.7	5.7	6.8	7.8	
CPI + 2.6% (1 Month in Arrears)		8.0	2.6	6.6	6.0	5.8	6.0	5.8	5.4	

⁽¹⁾ The Fixed Income Reference Index consists of the 50/50 benchmark until May 1999 and the Lehman Brothers Aggregate Index thereafter.

HIGH YIELD FIXED INCOME MANAGER	Assets (\$ millions)	April	Year To Date	<u>1 Yr</u>	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
Loomis, Sayles	148.32	0.0	3.6	8.9	12.3	11.3	9.5	9.5	12.5	11/30/82
Loomis, Sayles - Net		0.0	3.6	8.8	12.1	11.2	9.4	9.4	12.4	
vs. Merrill Lynch High Yield + 1.5%		0.7	4.0	10.6	11.4	9.9	7.4	8.5	N/A	
CPI + 5.0% (1 Month in Arrears)		0.9	3.0	7.9	7.2	7.0	7.3	7.0	N/A	
REAL ESTATE MANAGERS										
ING Clarion Real Estate Securities	66.51	-3.6	12.0	31.0	30.6	21.8	18.1	N/A	13.9	1/13/97
ING Clarion Real Estate Securities - Net		-3.6	12.0	30.5	30.1	21.3	17.6	N/A	13.5	
vs. Wilshire REIT Index + 1%		-3.7	11.7	30.2	30.9	22.5	19.4	17.3	15.0	
CPI + 5.9% (1 Month in Arrears)		1.0	3.2	8.4	7.7	7.5	7.8	7.5	8.4	
VENTURE CAPITAL MANAGERS										
Adams Street Partners (1)	16.70	N/A	N/A	N/A	N/A	N/A	N/A	N/A		10/1/92
Adams Street Partners (1)	2.50	N/A	N/A	N/A	N/A	N/A	N/A	N/A		1/2005
Progress (1)	1.02	N/A	N/A	N/A	N/A	N/A	N/A	N/A		7/1/95

⁽¹⁾ Market value is as of December 31, 2005

ASSET ALLOCATION As of April 30, 2006

Role	Current Allocation	Current Policy	Minimum Allocation	Maximum Allocation
Total Large Cap Equity	24.1 %	20.0 %	17.0 %	25.0 %
Boston Partners	10.3			
Mellon Capital Russell 1000 Growth	6.3			
Mellon Capital S&P 500	7.5			
Total Medium Cap Equity	9.3 %	6.0 %	4.0 %	7.5 %
Artisan Partners	3.0			
Hotchkis & Wiley	2.9			
EARNEST Partners	2.7			
Reinhart & Mahoney	0.8			
Total Small Cap Equity	5.9 %	5.0 %	3.0 %	6.5 %
Westfield	3.2			
Ariel	2.7			
Total International Equity	15.3 %	16.0 %	11.0 %	21.0 %
Capital Guardian	5.6			
Grantham, Mayo	9.7			
Int'l Small Cap Equity	4.0 %	4.0 %	0.0 %	7.0 %
Capital Guardian	4.0			
Venture Capital	1.3 %	3.0 %	0.0 %	5.0 %
TOTAL EQUITY	59.8 %	54.0 %	37.0 %	74.0 %

ASSET ALLOCATION As of April 30, 2006

Role	Current Allocation	Current Policy	Minimum Allocation	Maximum Allocation
Total Core Fixed Income	25.6 %	35.0 %	31.0 %	41.0 %
JP Morgan	6.9			
NCM	0.0			
Mellon Capital	13.1			
Loomis, Sayles	5.6			
High-Yield Fixed Income	9.4 %	7.0 %	5.0 %	9.0 %
Loomis, Sayles	9.4 %			
Cash	1.0 %	1.0 %	0.0 %	5.0 %
TOTAL FIXED INCOME	36.0 %	43.0 %	34.0 %	55.0 %
REAL ESTATE	4.2 %	3.0 %	0.0 %	7.5 %
ALTERNATIVE INVESTMENTS	0.0 %	0.0 %	0.0 %	0.0 %
TOTAL	100.0 %	100.0 %		

Average Credit Quality of current Fixed Income managers

JPMorgan AA+

Mellon Capital Management: AA1/AA2

Loomis Invesment Grade: AA

Loomis High Yield: BB

Mercer Ratings for Current Managers

Large Cap Eq	Mercer Rating
Boston Partners	Α
Mellon Russell 1000 Growth	Α
Mellon S&P 500	Α

Mid & Small Cap Eq

Artisan	B+
Hotchkis & Wiley	Α
EARNEST Partners	B+
Reinhart & Mahoney	В
Westfield	A-
Ariel	В

Int'l Eq

Cap. Guardian	B+
Grantham, Mayo Intl Intrinsic Value	Α
Grantham, Mayo Intl Small Company	Α

	Wercer
Int'l Small Cap Eq	Rating
Cap. Guardian	В
Core Fixed	
JP Morgan	А
Mellon	Α
Loomis, Sayles	B+(T)
High Yield Fixed	
Loomis, Sayles	B+(T)
Real Estate	
ING Clarion	N
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The Employees' Retirement System of the County of Milwaukee Proposed Investment Manager Due Diligence 2006

<u>Date</u>	Managers Invited to Present
18-January	Hotchkis & Wiley
08-February	Reinhart & Mahoney and EARNEST Partners
15-February	Boston Partners
15-March	Artisan*
19-April	Ariel* (Terminated)
17-May	
21-June	
19-July	Adams Street Partners and ING Clarion
16-August	Capital Guardian and GMO
20-September	
18-October	Westfield Capital
15-November	Loomis Sayles (both Core and High Yield)
20-December	JP Morgan

^{*} Subject to additional performance review at the Investment Committee meeting prior to the Pension Board meeting. Managers are not required to attend Investment Committee meetings.

Notes:

The format and timings of all investment manager presentations are to be dictated by the Pension Board. Suggested discussion outline attached for all but venture capital, real estate managers and Loomis Sayles (who have to present two strategies under management). The middle of the year has been deliberately left less crowded to allow manager presentations to be brought forward should issues arise. This would also serve to free up the final quarter of the year.

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